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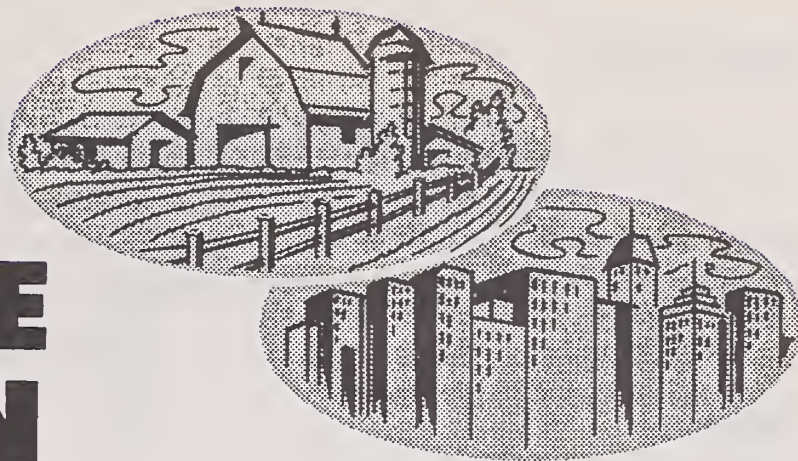
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DEMAND AND PRICE SITUATION



DPS-115

FEBRUARY 1968

IN THIS ISSUE

SUMMARY

AGRICULTURAL SITUATION

GENERAL ECONOMIC SITUATION

BALANCE OF PAYMENTS

THE 1969 AGRICULTURAL BUDGET IN BRIEF

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SERVICE

U. S. DEPARTMENT OF
AGRICULTURE

U. S. DEPT. OF AGRICULTURE
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MAR 1 1968

CURRENT SERIAL RECORDS

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1966		1967			
		Year	Dec.	Sept.	Oct.	Nov.	Dec.
Industrial production <u>1/ 2/</u>	: 1957-59=100	: 156	: 160	: 157	: 157	: 159	: 162
Final products	: do.	: 156	: 160	: 157	: 156	: 160	: 161
Consumer goods	: do.	: 148	: 150	: 147	: 147	: 150	: 152
Autos	: do.	: 170	: 167	: 133	: 135	: 144	: 175
Equipment, including defense	: do.	: 173	: 181	: 179	: 176	: 181	: 181
Materials	: do.	: 157	: 159	: 157	: 157	: 159	: 162
Construction: <u>3/ 4/</u>	:	:	:	:	:	:	:
Total outlays	: Mil. dol.	: 74,371	: 72,169	: 76,295	: 76,910	: 77,189	: ---
Public construction	: Mil. dol.	: 23,925	: 25,759	: 24,569	: 24,715	: 25,125	: ---
Private residential	: Mil. dol.	: 23,815	: 19,844	: 25,306	: 25,971	: 26,575	: ---
Housing starts, private only	: Thousands	: 1,165	: 931	: 1,445	: 1,496	: 1,587	: 1,256
Manufacturers' shipments, orders, and inventories: <u>2/ 3/</u>	:	:	:	:	:	:	:
Total shipments	: Mil. dol.	: 44,037	: 45,511	: 44,723	: 44,712	: 46,848	: ---
Durable goods	: Mil. dol.	: 23,006	: 23,715	: 22,949	: 22,311	: 23,654	: ---
Unfilled orders	: Mil. dol.	: 79,917	: 79,917	: 80,537	: 81,610	: 81,849	: ---
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 77,897	: 77,897	: 81,176	: 81,481	: 82,083	: ---
Durable goods	: Mil. dol.	: 50,037	: 50,037	: 52,572	: 52,918	: 53,505	: ---
Employment and wages: <u>2/ 6/</u>	:	:	:	:	:	:	:
Total civilian employment	: Millions	: 72.9	: 73.9	: 74.6	: 74.6	: 75.1	: 75.7
Nonagricultural	: do.	: 68.9	: 69.9	: 70.9	: 70.9	: 71.3	: 71.4
Unemployment	: do.	: 2.9	: 2.9	: 3.2	: 3.4	: 3.0	: 2.9
Workweek in manufacturing	: Hours	: 41.3	: 41.0	: 40.8	: 40.7	: 40.7	: 40.8
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.72	: 2.77	: 2.85	: 2.85	: 2.87	: 2.90
Income and spending:	:	:	:	:	:	:	:
Personal income <u>3/ 4/</u>	: Bil. dol.	: 584.0	: 605.0	: 634.4	: 635.9	: 642.4	: 648.1
Consumer credit outstanding <u>1/ 5/</u>	: Mil. dol.	: 94,786	: 94,786	: 95,886	: 96,094	: 96,802	: ---
Automobile	: Mil. dol.	: 30,961	: 30,961	: 31,296	: 31,237	: 31,217	: ---
Total retail sales, monthly rate <u>2/ 3/</u>	: Mil. dol.	: 25,306	: 25,368	: 26,732	: 26,089	: 26,467	: 26,343
Durable goods, monthly rate	: Mil. dol.	: 8,151	: 8,156	: 8,743	: 8,235	: 8,256	: 8,316
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 36,961	: 36,961	: 36,143	: 36,217	: 36,474	: ---
Prices: <u>6/</u>	:	:	:	:	:	:	:
Wholesale prices, all commodities <u>7/</u>	: 1957-59=100	: 105.9	: 105.9	: 106.2	: 106.1	: 106.2	: 106.8
Industrial commodities	: do.	: 104.7	: 105.5	: 106.5	: 106.8	: 107.1	: 107.4
Farm products	: do.	: 105.6	: 101.8	: 98.4	: 97.1	: 96.4	: 98.9
Processed foods and feeds	: do.	: 113.0	: 112.8	: 112.7	: 111.7	: 110.9	: 111.5
Consumer price index, all items	: do.	: 113.1	: 114.7	: 117.1	: 117.5	: 117.8	: 118.2
Food	: do.	: 114.2	: 114.8	: 115.9	: 115.7	: 115.6	: 116.2
Prices received by farmers <u>8/</u>	: 1910-14=100	: 266	: 257	: 252	: 251	: 250	: 253
Crops	: do.	: 235	: 229	: 217	: 224	: 227	: 231
Livestock and products	: do.	: 292	: 281	: 283	: 275	: 269	: 272
Prices paid, interest, taxes, and wage rates <u>8/</u>	: 1910-14=100	: 334	: 337	: 343	: 344	: 343	: 344
Family living items	: do.	: 315	: 318	: 323	: 324	: 325	: 325
Production items	: do.	: 285	: 287	: 289	: 289	: 286	: 287
Parity ratio <u>8/</u>	:	: 80	: 76	: 73	: 73	: 73	: 74
Farm income and marketings: <u>8/</u>	:	:	:	:	:	:	:
Volume of farm marketings	: 1957-59=100	: 121	: 138	: 136	: 174	: 168	: 135
Cash receipts from farm marketings	: Mil. dol.	: 43,219	: 3,889	: 3,933	: 4,918	: 4,626	: 3,766

Annual data for most of these items for years 1929, 1941, 1947, and 1953-66 appear on page 38 of the May 1967 issue of the Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ Beginning January 1967 reflects revised weighting structure and some new series for wholesale prices. Details available from Bureau of Labor Statistics, U.S. Department of Labor. 8/ U.S. Department of Agriculture.

THE DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, February 2, 1968

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SUMMARY*

The Nation's output of goods and services, employment, and consumer income is expected to rise more rapidly in 1968 than in 1967 when activity slowed. A rising level of economic activity and income led to further expansion in demand for farm products in 1967. Consumers spent about 4 percent more for food last year, and continued advances are expected in 1968. Although economic indicators are favorable to expansion, a number of factors cloud the outlook: International tensions persist. Some prices are rising, and interest rates are high. And consumer buying is weak in some areas.

The situation in agriculture at the close of 1967 reflected a large supply of most crops and livestock products, an expanding domestic market, and a high level of exports. Prices received by farmers in the fourth quarter of 1967 averaged nearly 4 percent below a year earlier. Livestock product prices were down about 5 percent from the closing months of 1966, but crop prices averaged only slightly lower. By January, average crop prices had moved above year-earlier levels, and livestock product prices averaged $2\frac{1}{2}$ percent below January 1967.

Although the value of all agricultural exports was down a tenth in the fourth quarter from a year earlier, a large volume of grains and soybeans was being exported. Lower domestic prices for these commodities apparently contributed to large U.S. exports, despite a general increase in world grain supplies.

Production of livestock and products made a substantial gain in 1967, with increases of 5 percent for red meat, 6 percent for poultry, 6 percent for eggs, and a slight drop in milk production. However, strong increases in consumer demand moderated the decline in livestock prices for the year. They averaged about 5 percent below the relatively high 1966 levels. Prospects for the first 6 months of 1968 are for total livestock marketings to continue around the record levels of a year earlier. With further growth in demand likely, livestock prices are expected to average slightly higher and result in some improvement in cash receipts from first half 1967 levels.

*The Summary of this report, along with a table on selected measures of economic activity, was released on February 2, 1968.

Crop production also rose to record levels in 1967, $3\frac{1}{2}$ percent above 1966. Prices for the year averaged nearly 5 percent lower. Although lower prices for grains and soybeans are stimulating utilization, stocks of grains in January continued well above a year earlier. However, supplies of cotton and most fruits are well below a year earlier, and prices are stronger. Prices received by farmers for crops during the first half of 1968 may average above a year earlier, due primarily to higher prices for cotton, fruits, and some fresh vegetables.

For the economy as a whole, preliminary reports for the fourth quarter of 1967 indicate that total output of final goods and services continued to advance strongly. The increase was considerably larger than gains recorded in the first and second quarters of 1967. Nevertheless, changes in the fourth quarter pointed to some imbalances.

Prices continued to rise strongly, and a third of the increased output went into inventories as sales expectations failed to materialize.

Employment and disposable consumer income continued to advance strongly in the closing months of 1967 as economic activity expanded. But consumer spending failed to keep pace, and the consumer savings rate rose to the highest level since the early fifties.

Rising consumer incomes in 1968 are expected to increase food expenditures, around the 4 percent rise in 1967. Retail food prices are also expected to increase in 1968, perhaps by around 2 to 3 percent, compared with a 1 percent increase in 1967. In the next several months, price advances from 1967 levels appear most likely for fruits, fresh vegetables, lamb, and veal. Lower prices are not expected for turkey, potatoes, and possibly pork.

The Demand and Price Situation no longer includes a Current Commodity Situation section. Detailed up-to-date information is presented in the individual commodity situation reports. These reports are released periodically by the U.S. Department of Agriculture.

The Demand and Price Situation is published February, May, August, and November. The summary of the next issue is scheduled for release May 10 and copies of the complete report will be available May 17.

AGRICULTURAL SITUATION

U.S. agricultural output climbed to record levels in 1967. Large supplies of farm products, combined with a leveling out in foreign demand, more than offset the effect of a growing domestic market for food and other farm products in 1967. As a result, farm prices averaged 5 percent lower for the year, and realized net farm income was more than a tenth below the unusually high 1966 level.

Production of livestock and products rose nearly 4 percent in 1967, with the big gains in output concentrated in the first half of the year. However, strong increases in consumer demand moderated the decline in livestock prices for the year. They averaged about 5 percent below the relatively high 1966 levels. Red meat production (carcass weight basis) averaged 5 percent larger in 1967, and meat animal prices declined 6 percent. Pork production was up 11 percent, and beef production was about 2 percent higher. On the other hand, veal production declined about 13 percent, while lamb production was about unchanged.

In response to larger supplies of pork, beef, and poultry, farm prices for hogs last year averaged nearly \$4 per 100 pounds below the high 1966 prices (table 2). Average prices for beef cattle were unchanged but lambs averaged \$1.40 less for the year, while prices received for calves increased slightly.

Increased production of poultry and eggs, combined with large supplies of competing meats, resulted in sharply lower poultry and egg prices in 1967. Egg production last year expanded 6 percent above 1966 levels for the largest year-to-year increase in the postwar period. As a result prices dropped a sharp 21 percent below a year earlier. Broiler meat production averaged 3 percent larger, with most of the increase occurring in the first half of the year. Broiler prices for the year fell 13 percent. Turkey production was up 13 percent in 1967, and average prices declined by about the same percentage. In addi-

tion, large cold storage holdings of turkey meat are continuing to exert downward pressure on grower prices.

Milk production in 1967--based on preliminary estimates--totaled about 119½ billion pounds, down slightly from a year earlier. Prices received by farmers averaged \$5.02 per 100 pounds last year, about 4 percent above 1966. However, during the fourth quarter of 1967, milk prices were close to year-earlier levels.

Crop production also rose to record levels in 1967, and prices averaged nearly 5 percent lower (table 3). Prices for grains, soybeans, potatoes, and a number of vegetables began moving lower after midyear as harvests got under way. Partially offsetting these lower prices were sharply higher prices for cotton as a result of the small 1967 crop, and higher prices for the small fruit crops. However, by the fourth quarter of 1967, average crop prices were less than 2 percent below the same 3 months in 1966. Among the commodity groups, average prices received for grains and oilseeds were down 10-16 percent, potato prices were off 16 percent, and commercial vegetable prices were 4 percent lower. However, these were about offset by a 28 percent increase in cotton prices and over a tenth higher fruit prices.

Cash receipts from farm marketings in 1967 totaled 2 percent below a year earlier. Larger marketings of both crops and livestock were more than offset by lower average market prices. Smaller Government payments and lower market receipts resulted in an \$800 million decline in realized gross farm income from the record \$49.7 billion of 1966. In addition, farm production expenses rose to a record \$34.4 billion. As a result, realized net farm income declined 12 percent from the 1966 level.

Prospects for the first 6 months of 1968 are for little change in total livestock marketings from a year earlier.

Table 2.--Production and prices for major livestock and livestock products, 1965, 1966, 1967, and fourth quarters for 1966 and 1967

Item	Unit	1965	1966	1967 1/	1966 IV	1967 IV 1/
Production (carcass wt.)						
Cattle and calves	Mil. lb.	19,744	20,635	21,010	5,172	5,129
Hogs	Mil. lb.	11,140	11,337	12,550	3,229	3,395
Sheep and lambs	Mil. lb.	651	650	650	157	154
Chicken	Mil. lb.	6,649	7,303	7,560)	2,636	2,634
Turkey	Mil. lb.	1,521	1,678	1,900)		
Eggs	Mil. lb.	8,594	8,695	9,180	2,221	2,287
Milk	Mil. lb.	124,173	120,230	119,583	27,856	27,374
Prices						
Cattle	Dol./cwt.	19.80	22.20	22.20	21.27	21.77
Hogs	Dol./cwt.	20.80	23.00	19.00	19.80	17.17
Lamb	Dol./cwt.	22.70	23.60	22.20	21.83	21.90
Chicken	Ct./lb.	14.4	14.7	12.8	12.4	11.3
Turkey	Ct./lb.	22.6	23.4	20.2	23.8	19.1
Eggs	Ct./doz.	33.7	39.1	31.0	41.4	30.1
All milk (wholesale)	Dol./cwt.	4.25	4.83	5.02	5.35	5.32

1/ Preliminary.

Statistical Reporting Service.

With further growth in demand likely, livestock product prices may increase slightly, resulting in some improvement in cash receipts. Crop receipts during the first half of 1968 may gain some strength, as prices continue to improve from the low levels in late 1967. Prices for fruits and vegetables, in particular, are expected to be higher.

Livestock production in 1968 is expected to total around 1967 levels. Current indications point to little change in output from a year earlier in the early months of 1968. However, the record large 1967 feed grain crop and generally favorable livestock-feed price relationships provide the conditions which usually lead to increased livestock production. In order to avoid low prices, producers have been urged not to plan large advances in output this year.

Fed cattle marketings in the first quarter of this year are expected to run 2 percent above 1967 levels, according

to the January 1 Cattle on Feed Report. Marketings of fed cattle during the first half of 1968 will probably only slightly exceed those of a year earlier. Prices may weaken in the spring, but are expected to be above last spring, when Choice steers at Chicago averaged about \$25.30 per 100 pounds.

Current indications suggest hog production during the first half of 1968 may average slightly above a year earlier. On December 1, 1967, there were 1 percent more hogs on farms (excluding those kept for breeding purposes), compared with the previous year. Based on numbers in various weight groups, hogs available for slaughter this winter are expected to about equal year-earlier levels. By spring, slaughter could run as much as 3 percent higher. Hog producers recently stated intentions to have slightly fewer sows farrowed during December 1967-May 1968 than a year earlier. Thus, hog slaughter after midyear may decline. However, these tentative plans are subject to

Table 3.--Index numbers of agricultural prices and marketings 1950-67 annually, and 1965-67 quarterly

Period	Prices received by farmers				Prices paid by farmers				Parity ratio	Volume of farm marketings			
	1910-14=100				1910-14=100					1957-59=100			
	Total	Crops	Livestock and products		Total	Family living	Production			Total	Crops	Livestock and products	
1950	258	233	280		256	246	246		101	83	85	82	
1951	302	265	336		282	268	273		107	84	84	85	
1952	288	267	306		287	271	274		100	88	89	86	
1953	255	240	268		277	269	256		92	92	95	90	
1954	246	242	249		278	270	255		89	93	92	93	
1955	232	231	234		276	270	251		84	96	96	96	
1956	230	235	226		278	274	250		83	99	97	101	
1957	235	225	244		287	282	257		82	94	88	99	
1958	250	223	273		294	287	264		85	101	104	98	
1959	240	222	256		298	288	266		81	105	108	103	
1960	238	222	253		300	290	265		80	107	112	104	
1961	240	227	251		302	291	266		80	109	110	108	
1962	244	232	255		307	295	270		80	111	112	110	
1963	243	239	245		312	298	273		78	116	119	114	
1964	237	239	236		313	300	270		76	118	119	118	
1965	248	234	261		321	306	276		77	118	119	118	
1966	266	235	292		334	315	285		80	121	121	120	
1967	252	224	276		342	321	287		74	2/124	2/124	2/124	
1965:													
I	238	237	239		318	303	273		75	101	85	113	
II	250	245	255		322	306	277		78	91	58	115	
III	252	230	271		322	306	277		77	121	125	119	
IV	253	223	280		323	307	277		78	160	207	125	
1966:													
I	268	232	299		329	311	282		81	106	98	112	
II	264	239	286		333	314	283		79	95	65	118	
III	270	240	296		335	317	287		80	122	122	122	
IV	261	231	286		337	318	287		78	159	197	130	
1967:													
I	252	224	276		338	n.a.	n.a.		75	2/108	2/96	2/117	
II	251	224	274		341	n.a.	n.a.		74	2/99	2/69	2/121	
III	255	222	284		343	n.a.	n.a.		74	2/129	2/136	2/124	
IV	251	227	272		344	n.a.	n.a.		73	2/159	2/197	2/130	

1/ Prices paid, interest, taxes, and wage rates. 2/ Preliminary estimates as of January 1, 1968. n.a.-Not available
U.S. Department of Agriculture.

change, particularly if feeding ratios remain relatively favorable. Hog prices have strengthened since last fall, but are still below a year earlier. Average prices received by farmers for hogs in January were \$17.60 per 100 pounds.

Lamb slaughter this winter and spring is expected to total below year-earlier levels. The number of lambs on feed on January 1 was down 9 percent, and the new lamb crop is again expected to be lower this year. Farm prices for lambs currently are averaging about \$22 per 100 pounds, about the same as a year ago. Prices may strengthen some through mid-year.

Egg production increased to a record level in 1967, and unfavorable producer returns resulted in a cutback in pullet placements last spring. By December, egg production was only 2 percent over a year ago. A reduction in the number of layers on farms, compared with the year before, will probably develop in 1968, and egg production is expected to be below 1967 by midyear. Egg prices will probably continue below 1967 in early 1968, but by midyear, are expected to average above 1967 levels.

Broiler supplies were below a year earlier in the closing months of 1967. Relatively low broiler-feed price relationships in late 1967 encouraged cutbacks in operations. Chick placements and eggs set suggest that broiler production during the early months of 1968 may average slightly below year-earlier levels. Prices have strengthened since last fall and prospective meat supplies for the next several months suggest they may average around those of last year.

Milk production in the closing months of 1967 was down nearly 2 percent from a year earlier. Current indications point to continued production declines in January-March 1968 from a year earlier. Smaller than usual gains in output per cow are primarily responsible for the decrease in milk production. However, the downtrend in milk cow numbers has recently been slowing, and milk-

feed price ratios have been more favorable than at any time during 1961-66.

Total crop production in 1967 turned out record large. Crop production was up $3\frac{1}{2}$ percent from 1966 and over 5 percent above the 1961-65 average (table 4). Crops were record large for corn, sorghum grain, wheat, soybeans, rice, peanuts, and sugar cane. Harvested acreage for the 59 major crops totaled 301 million acres, the largest since 1960. Average crop yields also improved slightly last year, despite poor weather in some regions of the country.

Of the major crops, only cotton production declined significantly in 1967. In December, the 1967 crop was estimated at 7.6 million bales, the smallest since 1895. The light crop was due to both smaller acreage and reduced yield. As a result of the small crop, cotton prices rose sharply last fall, but have declined in recent weeks. Demand has been unusually strong, particularly for the longer staples. Price rises reflect the small 1967 crop and trade uncertainty about the size of the 1968 crop.

Total tobacco production in 1967 was estimated at 2,007 million pounds, 6 percent more than the 1,888 million pounds produced in 1966. Production gains in flue-cured and Southern Maryland tobacco more than offset declines in other classes. The total 1967/68 supply of flue-cured tobacco--the leading cigarette and export tobacco--is about unchanged from a year earlier. However, total 1967/68 supplies of burley, Kentucky-Tennessee fire-cured, Virginia fire-cured, dark air-cured, Virginia sun-cured, and Maryland tobacco are down from a year earlier.

The 1967 sugar cane crop turned out to be a record 25.2 million tons, 7 percent above last year. However, sugar beet production totaled only 19.4 million tons last year, 5 percent below the 1966 level. Both lower yields and smaller harvested acreage contributed to the decline.

Total output of fresh vegetables this winter is expected to be as much as a tenth smaller than a year earlier as a result of reduced acreage for most items. With substantially smaller supplies, prices this winter are expected to be relatively high. On the other hand, stocks of processed vegetables are larger than last year, with increases indicated for all major canned and frozen items. Wholesale prices have declined slightly from the record highs of last fall. Further declines are likely in coming months, as processors attempt to move their large stocks.

Record large storage holdings of potatoes this fall and winter have depressed prices below year-earlier levels. Although intentions reports suggest a fairly large early spring potato crop, the late spring acreage is expected to be small.

Total supplies of fresh and processed fruit in early 1968 are considerably smaller than last year. The

1967/68 citrus crop, as of January 1, was estimated about 30 percent below last season's record large output. Poor weather was responsible for the decline in production this season. Orange production is estimated to be down a third, and grapefruit output is estimated a fourth below 1966/67. Prices for fresh fruit are averaging above year-earlier levels and are expected to continue higher into midyear. Noncitrus fruit production last fall was 16 percent below a year earlier. As a result, supplies in processed form are substantially smaller, and prices are averaging higher.

The 1968 farm programs have been designed to gear crop output in line with prospective utilization. The 1968 Wheat and Feed Grain Programs are intended to reduce acreage by around 10 percent from 1967 levels. However, the new cotton program is expected to expand production in line with anticipated utilization, and to encourage production of a higher proportion of longer staple cotton.

Table 4.--Crop production: Index numbers of production of crops, United States 1/

(1957-59=100)									
Item	: 1959	: 1960	: 1961	: 1962	: 1963	: 1964	: 1965	: 1966	: 1967 <u>2/</u>
All crops <u>3/</u>	: 103	108	107	107	112	109	115	112	116
Feed grains	: 106	109	99	100	110	97	111	111	124
Hay and forage	: 97	103	102	105	105	105	112	110	115
Food grains	: 97	115	106	98	102	114	117	118	134
Vegetables	: 100	103	110	108	108	103	110	110	112
Sugar crops	: 106	102	115	119	153	156	138	137	136
Cotton	: 118	116	116	121	125	124	121	78	62
Tobacco	: 104	112	119	134	135	129	107	109	116
Oil crops	: 98	105	122	123	128	128	153	164	171

1/ For historical data and explanation of indexes, see Changes in Farm Production and Efficiency, USDA Statistical Bulletin No. 233.

2/ Preliminary indexes for 1967 based on December 1967 "Crop Production" report and other releases of the Crop Reporting Board, SRS.

3/ Includes other products not included in the separate groups shown.

Table 5 .--Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, and estimates for 1967/68

Item	Unit	Beginning: stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1965/66	:Mil. tons	54.8	0.3	157.4	212.5	141.3	29.1	170.4	42.1	2/1.16
1966/67 p.	:Mil. tons	42.1	.3	157.6	200.0	140.9	22.0	162.9	37.1	2/1.24
1967/68 e.	:Mil. tons	37.1	.3	175.1	212.5	3/	3/	3/	3/	
Wheat										
1965/66	:Mil. bu.	817.3	.9	1,315.6	2,133.8	731.2	867.4	1,598.6	535.2	1.35
1966/67 p.	:Mil. bu.	535.2	1.8	1,311.7	1,848.7	681.3	742.4	1,423.7	425.0	1.63
1967/68 e.	:Mil. bu.	425.0	1.0	1,524.0	1,950.0	3/	3/	3/	3/	
Rice										
1965/66	:Mil. cwt.	7.7	.7	76.3	84.7	30.9	43.3	74.2	8.2	4.93
1966/67 p.	:Mil. cwt.	8.2	4/	85.1	93.3	31.4	52.0	83.4	8.5	4.95
1967/68 e.	:Mil. cwt.	8.5	4/	89.6	98.1	32.9	3/	3/	3/	
Soybeans										
1965/66	:Mil. bu.	29.7	0	845.6	875.3	589.1	250.6	839.7	35.6	2.54
1966/67 p.	:Mil. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68 e.	:Mil. bu.	90.1	0	972.7	1,062.8	644.0	280.0	924.0	139.0	
Cotton 5/										
1965/66	:Mil. bales	14.3	.1	14.8	29.3	9.5	2.9	12.4	16.9	28.03
1966/67 p.	:Mil. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.4	20.50
1967/68 e.	:Mil. bales	12.4	.1	7.6	20.2	3/	3/	3/	3/	

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Complete supply and distribution tables will be released later in individual commodity situation reports. 4/ Less than 50,000 cwt. 5/ Total cotton supply includes city crop and production prior to August 1 (end of season).

p. Preliminary. e. Estimated.

Of the major 1968 crops, only prospective winter wheat production has been estimated. Winter wheat production was estimated in late December at 1,204 million bushels, slightly below the record 1967 level. Acreage for harvest planted last fall totaled 49.7 million acres, 8 percent less than a year earlier. However, the indicated yield per planted acre was 9 percent above the 22.3 bushels of 1967.

Consumers spent a total of \$96.4 billion for food in 1967, about 4 percent more than in 1966. The percentage of personal disposable income spent for food last year declined to 17.7 percent from 18.3 percent in the previous year. Retail food prices in 1967 increased less than 1 percent over a year earlier, with all of the rise due to higher prices for food away from home. Larger supplies of food products and lower farm product prices last year were primarily responsible for the limited food price increase. Food consumption per person in 1967 was up nearly 2 percent from a year earlier, with per capita gains for nearly all major foods except dairy products, fresh non-citrus fruit, sweetpotatoes, sugar, coffee, and tea.

Rising disposable incomes in 1968 are expected to result in further increases in expenditures for food, although the percent of the consumer's dollar which goes for food may remain steady. Retail food prices in 1968 may increase around 2 to 3 percent above the 1967 level. Such a rise reflects an increased demand and an estimated 1968 per capita food supply about the same as in 1967.

Domestic use of feed and other non-food products in 1967/68 is expected to continue heavy. Although total use of crop products has been expanding, year-end stocks were generally above a year earlier, due mainly to the record 1967 crop production.

Improved livestock-feed price ratios since last fall have encouraged heavy utilization of feeds. Domestic

feed use of the 1967 feed grain crop is expected to total around 4 to 5 percent above the 126 million tons of 1966/67. Domestic utilization of the 4 feed grains during October-December is estimated at 42 million tons, slightly below the record disappearance of the last 3 months in 1966. Even with the heavy disappearance during October-December, the big 1967 crop resulted in stocks on January 1 being 9 percent larger than a year earlier (table). Government stocks (those owned by CCC and under loan) amounted to 25 million tons on January 1--slightly below a year earlier, while "free" stocks were 11 percent higher. With feed grain prices low relative to loan rates, the quantity of 1967 crop feed grains placed under loan through December totaled nearly 8 million tons, almost double the volume in that period during 1966. From November to January, feed grain prices rose 6 percent, but were 16 percent below a year earlier. With larger quantities of corn going under loan this season and prospects for a large utilization, feed grain prices should continue to gain some strength in the first half of 1968.

Utilization of the soybean crop is expected to be record large again in 1967/68. The soybean crush may possibly reach 585 million bushels, compared with 551 last season. The expected crush primarily reflects the strong demand for soybean meal. Even with prospects for some increase in soybean exports, combined with the larger domestic crush, total disappearance probably will not match the 1967 record crop. Soybean stocks on January 1 totaled 8 percent above a year earlier. Prices received by farmers for soybeans so far in 1967/68 are averaging \$2.48 per bushel, 12 percent below a year earlier.

Domestic mill consumption of cotton in recent months has lagged year-earlier usage. However, disappearance is expected to total over 9 million bales for the 1967/68 crop year. With the exception of the last 3 seasons, this would be the largest utilization since 1955/56. Primarily because of the small 1967 crop and an ex-

Table 6.--Stocks of grains, with comparisons

Grain and position	January 1, 1959-61 average	January 1, 1967	January 1, 1968
	<u>Mil. bu.</u>	<u>Mil. bu.</u>	<u>Mil. bu.</u>
WHEAT			
On farms <u>1/</u>	402.9	408.5	504.5
Off farms <u>2/</u>	1,518.6	640.6	703.6
Total*	1,921.4	1,049.1	1,208.2
CORN			
On farms <u>1/</u>	2,891.7	2,898.8	3,352.7
Off farms <u>2/</u>	1,410.8	778.6	862.2
Total*	4,302.5	3,677.4	4,215.0
OATS			
On farms <u>1/</u>	798.9	556.8	543.6
Off farms <u>2/</u>	86.0	105.1	103.8
Total*	884.9	661.9	647.4
BARLEY			
On farms <u>1/</u>	210.9	179.1	182.8
Off farms <u>2/</u>	160.1	115.2	119.8
Total*	371.0	294.4	302.6
GRAIN SORGHUM			
On farms <u>1/</u>	195.8	234.2	218.9
Off farms <u>2/</u>	675.6	586.9	514.6
Total*	871.4	821.0	733.5
SOYBEANS			
On farms <u>1/</u>	190.2	344.4	349.8
Off farms <u>2/</u>	258.2	377.0	432.4
Total*	448.4	721.4	782.2

1/ Estimates of the Crop Reporting Board.2/ Including grain owned by Commodity Credit Corporation.

*Totals from unrounded data.

pected total disappearance of possibly $13\frac{1}{4}$ million bales, the U.S. carryover of cotton on August 1, 1968, is expected to total around $6\frac{3}{4}$ million bales, more than $5\frac{1}{2}$ million bales below last August.

U.S. smokers consumed a record amount of cigarettes in 1967, about 2 percent more than in the previous year. Although on a per capita basis (18 years and older), domestic consumption was up slightly, it still fell below the 1963 peak, the year before the release of the smoking-health report. In 1968, total U.S. cigarette consumption may gain some, due primarily to a larger adult population and higher disposable incomes. The number of cigars and cigarillos smoked by U.S. smokers declined 2 percent in 1967.

Domestic mill consumption of apparel wool declined in 1967, and in recent months has continued to average below year-earlier levels. However, some pickup is expected in the next few months, along with the advance in general economic activity. U.S. wool prices have remained at low levels recently, reflecting reduced demand.

The value of agricultural exports during the last 3 months of 1967 continued to lag behind the same period in 1966. Declines in a number of products brought the October-December 1967 total 10 percent below the same period a year earlier (table 7). During the previous 3 months (July-September 1967), exports were 12 percent below the same period a year earlier. In October-December 1967, the value of cotton, tobacco, wheat, and vegetable exports was sharply below the 1966 level. Only rice and dairy products showed gains over a year earlier for the 3-month period. Although the total value of exports was down in the fourth quarter, a large volume of grains and soybeans was being exported.

Cotton exports in October-December 1967 displayed the sharpest decline in value over a year earlier, down nearly 39 percent. A low level of economic activity in several importing countries, particularly in Europe, reduced the volume of cotton exports. Also, most

importing countries are apparently working down their raw cotton inventories, partly because of the sharp advance in world cotton prices and in anticipation of larger world cotton supplies in 1968/69. A larger proportion of short staple cotton lowered average export unit values and contributed to a lower value of exports. The average export price per bale of cotton was \$116 in December 1967, compared with \$119 in December a year ago.

The value of tobacco exports in October-December 1967, was down 14 percent from the unusually high level of a year earlier. Although trade sanctions against Rhodesian tobacco and the improved quality of U.S. flue-cured tobacco continue to favor U.S. tobacco exports, it now appears that the value of U.S. tobacco exports in fiscal 1968 will not match the high level of a year earlier. Increased supplies of tobacco are available from some foreign producing areas, and stocks of U.S. tobacco have been built up in several major importing countries.

Wheat exports were down 12 percent in value during October-December, compared with a year earlier. However, exports picked up sharply in November and December, substantially improving the wheat export situation.

Feed grain exports were up 8 percent in volume although the value was 1 percent below October-December 1966. All of the increase in volume was due to a sharp rise in corn exports during November and December. For the entire fiscal 1968, the volume of feed grain exports is expected to moderately exceed year-earlier levels.

Exports of oilseeds and products were down slightly in value during October-December 1967, compared with a year earlier. However, the decline was due to lower prices for soybeans. Soybean exports during this period totaled 97 million bushels, about the same as in the last 3 months of 1966. The values of protein meal, cottonseed and soybean oil

exports were about unchanged from the same period in 1966.

Vegetable preparations declined in value during the final quarter of 1967. Most of the decline in vegetable preparations was due to a reduction in dry bean exports. Exports of fruits and preparations gained slightly. Fresh fruit exports offset declines in canned products.

Rice exports continued to expand. During October-December 1967, the value of rice exports was up 16 percent due to increased exports and higher world prices.

Imports of agricultural products during October-December 1967 totaled \$1,145 million. This was slightly higher than the July-September level and the same as in 1966. For the entire first half of fiscal year 1968 (July-December 1967), imports totaled \$2,209 million, the same as a year earlier. A slight increase in supplementary imports was more

than offset by a decline in complementary items. Among the supplementary products, imports of meat and meat products were up, while most other animal products declined. Fruit and vegetable imports also showed slight gains over a year earlier. The drop in carpet wool imports from a year ago was the sharpest decline among the complementary products. The value of coffee and banana imports was also lower.

Prices paid by farmers for production items, including interest, taxes, and wage rates increased about 2½ percent in 1967. This compares with a more than 4 percent increase in 1966. Lower prices for some farm supplied inputs were primarily responsible for the overall smaller rise. Prices paid for purchased feed declined from the unusually high levels of late 1966, while feeder livestock prices moved lower after midyear. For the entire year, feed prices averaged about unchanged, but feeder livestock prices averaged nearly 3 percent below the 1966 level. Prices for most other production items continued to increase.

Table 7.--U.S. agricultural exports, value of major commodities, October-December 1966 and 1967

Commodity	October-December		Percentage change
	1966	1967 <u>1/</u>	
	Mil. dol.	Mil. dol.	Percent
Cotton, excluding linters	167	102	-39
Dairy products	20	21	7
Feed grains, excluding products	308	305	-1
Fruits and preparations	79	79	-1
Soybeans	302	271	-10
Tobacco, unmanufactured	191	164	-14
Vegetables and preparations	50	44	-11
Wheat and flour	372	328	-12
Rice	68	79	16
Other	394	369	-6
Total exports <u>3/</u>	1,952	1,794	-10

1/ Preliminary.

2/ Change computed from unrounded data.

3/ Totals may not add due to rounding.

Farm wage rates continued to advance in 1967. The annual composite farm wage rate averaged \$1.12 per hour in 1967, up 9 percent from a year earlier. Although wage rates rose more rapidly in agriculture than in some parts of the nonfarm sector in 1967, the number of hired workers declined. In 1967, there were nearly 8 percent fewer hired workers on farms than a year earlier. Increased use of mechanical harvesting equipment and other labor saving devices has accelerated the decline in total farm workers in recent years.

Farm machinery prices rose almost 5 percent in 1967. This was the largest increase for any group of production items included in the Prices Paid Index. Higher machinery prices, combined with lower farm product prices and the high level of farm machinery purchases in recent years, are having a dampening effect on the current demand for farm machinery. During the first 11 months of 1967, the total value of farm machinery shipped (excluding tractors) declined 2 percent. Shipments of some specialty harvesting equipment continued to show gains in 1967; however, these items compose a relatively small portion of total sales. According to the U.S. Department of Commerce, increases in the total value of shipments of farm machinery and equipment in 1968 are expected to be small.

Wheel tractor shipments and retail sales also lagged year-earlier levels in 1967. This turnaround follows 7 years of continued increases in the value of wheel tractor shipments. From January through November of 1967, the value of wheel tractor shipments was less than 1 percent below the same period a year earlier. The number shipped was down 7 percent, while total horsepower shipped declined only 3 percent, reflecting a continuation toward larger, more powerful units.

Domestic use of fertilizer, in terms of the primary nutrients, rose 13 percent in the year ended June 30, 1967 (most fertilizer purchases are in the first half of the calendar year). The substantial increase in fertilizer consumption last year was due to increased acreage and the continued trend toward higher analysis fertilizer.

Preliminary data indicate farmers purchased a record amount of pesticides again in 1967. Increased demand for herbicides was encouraged by larger feed grain and wheat acreages. However, the reduction in cotton acreage decreased the demand for some insecticides. Increases in the use of pre-emergence herbicides were also limited by wet weather in early 1967.

Table 8.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	1966				1967			
		Year				Year			
		I	II	III	IV	I	II	III	IV 1/
Gross national product	Bil. dol.	785.1	743.3	725.9	736.7	748.8	762.1	766.3	775.1
Gross national product (1958 prices)	Bil. dol.	669.2	652.6	645.4	649.3	654.8	661.1	660.7	664.7
Disposable personal income	Bil. dol.	544.6	508.8	497.5	503.3	512.4	522.0	532.7	540.0
Personal consumption expenditures	Bil. dol.	491.6	465.9	458.2	461.6	470.1	473.8	480.2	489.7
Durable	Bil. dol.	72.1	70.3	71.6	68.2	70.9	70.6	69.4	72.5
Nondurable	Bil. dol.	217.5	207.5	203.2	207.1	209.5	210.3	214.2	217.2
Services	Bil. dol.	202.1	188.1	183.5	186.3	189.8	192.9	196.6	200.0
Personal savings	Bil. dol.	38.7	29.8	26.6	28.7	29.2	34.6	38.8	36.0
Net Government receipts	Bil. dol.	163.1	157.5	150.9	157.5	160.2	161.5	159.6	160.1
Government purchases	Bil. dol.	176.3	154.3	146.5	151.2	157.7	161.7	170.4	175.0
Federal	Bil. dol.	89.9	77.0	72.1	74.9	79.5	81.5	87.1	89.5
State and local	Bil. dol.	86.4	77.2	74.3	76.2	78.1	80.2	83.3	85.4
Deficit or surplus (on income and product accounts)	Bil. dol.	-12.7	3.2	4.6	6.1	2.6	-3	-10.8	-15.0
Gross private domestic investment	Bil. dol.	112.1	118.0	115.2	118.5	116.4	122.2	110.4	105.1
Fixed investment	Bil. dol.	107.0	104.6	105.3	104.5	104.9	103.7	103.3	104.6
Residential	Bil. dol.	24.5	24.4	27.0	25.8	23.7	20.9	21.4	23.1
Nonresidential	Bil. dol.	82.5	80.2	78.3	78.7	81.2	82.8	81.9	81.5
Change in business inventories	Bil. dol.	5.1	13.4	9.9	14.0	11.4	18.5	7.1	.5
Gross retained earnings	Bil. dol.	90.4	89.7	87.6	88.4	89.5	93.6	88.9	89.1
Excess of investment	Bil. dol.	-21.7	-28.3	-27.6	-30.1	-26.9	-28.6	-21.5	-16.0
Net exports of goods and service	Bil. dol.	5.0	5.1	6.1	5.4	4.6	4.3	5.3	5.4
Per capita disposable personal income (1958 prices)	Dol.	2,391	2,317	2,304	2,302	2,324	2,341	2,373	2,388
Total civilian employment 2/	Mil.	74.4	72.9	72.3	72.5	73.1	73.7	74.0	73.8

1/ Preliminary. 2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The beginning of the new year was marked by a strongly expanding economy. Most important indicators of aggregate economic activity were pointing upward. It is expected that 1968--particularly the first half of the year--will be another year of growth for the U.S. economy. The gain in gross national product this year is expected to exceed the 1967 rise of $5\frac{1}{2}$ percent ($2\frac{1}{2}$ percent, excluding the amount due to higher prices), but will probably fall short of the $8\frac{1}{2}$ percent (about 6 percent in real terms) increase in 1966. However, the outlook for 1968 continues to be obscured by such matters as the Vietnam conflict, world economic conditions, high interest rates, increased consumer savings rates, and rising prices.

Preliminary results for the fourth quarter of 1967 indicate that the Nation's output of final goods and services advanced strongly for the second quarter in a row. The gross national product increased $\$16\frac{1}{2}$ billion--more than 8 percent at an annual rate--to $\$807$ billion^{1/} (table 8). The increase was about equal to the third quarter rise and considerably larger than the $2\frac{1}{2}$ and $4\frac{1}{2}$ percent increases recorded in the first and second quarters of 1967. Nevertheless, some developments in the fourth quarter were less than encouraging. Prices continued to rise at an annual rate of close to 4 percent, up considerably from the 2 to $2\frac{1}{2}$ percent in the first two quarters of 1967. In addition, a large part of the rise in output went into inventories reflecting, in part, failure of sales expectations to materialize.

Business inventories rose \$9 billion in the fourth quarter of 1967 (table 9). This was sharply above the \$4 billion added in the third quarter, but considerably below the \$18 billion increase a year earlier. This faster rate of inventory accumulation accounted for about one-third of the increase in fourth quarter gross national product (see table below). Most of the increase occurred in trade firms, probably as a result of higher prices and rebuilding automobile deal-

ers' stocks after strikes. In addition, some of the increase probably reflected disappointing nondurable goods sales, especially during the Christmas season. Inventory stocks of manufacturing industries appears to have risen at about the same rate as in the third quarter. However, there are indications that stockpiling of steel is beginning in anticipation of contract negotiations with the United Steel Workers Union in the summer of 1968.

Growth in sales of goods and services to final users continued in the fourth quarter of 1967. However, the increase, which was \$11 billion or about 6 percent at an annual rate, was the smallest in 1967 (see table below). The slowdown in overall final market sales was even more pronounced in physical terms. Eliminating the effect of higher prices reduces the annual growth rate to $1\frac{1}{2}$ percent in the fourth quarter of 1967. In the first

Item	Change from previous quarter		
	GNP	Final sales	Inventory change ^{1/}
	Bil. of current dol.		
1966: I	17.5	17.5	0
II	10.8	6.6	4.1
III	12.1	14.8	-2.6
IV	13.3	6.2	7.1
1967: I	4.2	15.6	-11.4
II	8.8	15.4	6.6
III	16.1	12.8	3.3
^{2/} IV	16.4	11.3	5.2

^{1/} Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the fourth quarter of 1967 (\$9 billion) less the change in the third quarter of 1967 (\$4 billion) equals plus \$5 billion.

^{2/} Preliminary.

^{1/} All data in this section are seasonally adjusted annual rates unless otherwise specified.

Table 9, --Federal receipts and expenditures in the national income accounts,
semi-annually 1965-68

(Calendar years in billions of dollars, seasonally adjusted annual rates)									
Description	Actual						Estimate		
	1965		1966		1967		1968		
	First : half :	Second : half :	First : half :	Second : half :	First : half :	Second : half :	First : half :	Second : half :	First : half : 1/
RECEIPTS, NATIONAL INCOME BASIS									
Personal tax and nontax	53.7	54.0	59.3	64.2	64.8	68.2	73.8		
Corporate profits tax accruals	28.6	30.0	32.2	32.4	30.3	31.1	37.5		
Indirect business tax and nontax									
accruals	17.0	16.0	15.6	16.2	16.4	16.8	17.4		
Contributions for social									
insurance	24.8	25.6	32.2	34.4	37.1	38.3	39.1		
Total receipts, national income									
basis 2/	124.2	125.5	139.3	147.1	148.6	154.4	167.8		
EXPENDITURES, NATIONAL INCOME BASIS									
Purchases of goods and services	64.8	68.7	73.5	80.5	88.3	91.4	94.2		
Transfer payments	31.1	33.8	34.6	37.4	42.3	43.5	46.3		
Grants-in-aid to State and									
local governments	10.6	11.8	14.2	15.4	15.4	16.2	19.8		
Net interest paid	8.6	8.8	9.2	9.8	10.4	10.6	10.8		
Subsidies less current surplus									
of government enterprises	4.4	4.3	5.0	6.0	5.4	5.0	4.2		
Total expenditures, national									
income basis 2/	119.4	127.3	136.6	149.1	161.8	166.7	175.5		
SURPLUS (+) OR DEFICIT (-)									
NATIONAL INCOME BASIS	4.7	-1.8	2.7	-2.0	-13.3	-12.3	-7.7		

1/ Computed by the Department of Agriculture from estimates of fiscal year totals and quarterly data for the last two quarters of calendar 1967. 2/ Totals may not add due to rounding.

Actual data for 1965-67 are based on estimates prepared by the Department of Commerce. Data for 1968 based on estimates by the Bureau of the Budget in cooperation with the Department of Commerce.

two quarters of 1967, the growth rate was about 6 percent and in the third quarter was $2\frac{1}{2}$ percent.

Government purchases of goods and services rose around \$3 billion to \$181 billion in the fourth quarter of 1967 (table 8). Larger payrolls accounted for almost that much. About two-thirds of the increase in total Government spending was at the State and local level. This gain was comparable to previous quarterly increases. Similar advances are expected this year.

Federal spending for goods and services--particularly defense purchases--continued to rise slowly in the fourth quarter of 1967. Quarterly increases trended down from $\$5\frac{1}{2}$ to \$1 billion during 1967. Most of the fourth quarter rise reflected pay raises for civilian and military personnel. Spending for other Federal activities such as social security payments, interest, and grants to State and local Governments also rose more slowly during the fourth quarter.

The slower rise in total Federal spending was mostly responsible for a decline in the deficit, as measured in the national income and product accounts. Never the less, the deficit was still considerably above a year earlier. In the fourth quarter, revenues rose by a larger amount than spending. The increase in revenue was less than in the third quarter but more than earlier in the year.

Further increases in Federal spending are expected during the first half of 1968 (table 9). The president's recent budget message indicates that purchases of goods and services in the first half of 1968, will rise about \$3 billion from the last half of 1967. This increase would be about the same as the second half 1967 advance and the second smallest half year increase since 1965. Other types of spending are also expected to increase. Although Federal spending is expected to continue rising, the deficit is expected to decline somewhat. An expanding economy is expected to generate an increase in revenues large enough to

reduce the deficit from about $\$12\frac{1}{2}$ billion in the second half of 1967 to $\$7\frac{1}{2}$ billion during the first half of 1968. The expected revenue increase assumes that the president's 10 percent tax surcharge proposal will be enacted by Congress with effective dates of April 1 for individuals and January 1 for corporations.

Business fixed investment has been sluggish during all of 1967. The slight second half uptrend in spending for new plant and equipment continued in the fourth quarter, rising \$1 billion to about \$84 billion (table 8). All of the increase came in equipment purchases. Outlays for buildings declined slightly. Higher prices for investment goods accounted for all of the increase in spending during the fourth quarter. This situation has prevailed throughout 1967, with the physical volume of spending no higher in the fourth quarter than in the first quarter.

The value of investment spending for new plant and equipment is expected to pick up moderately in the next six months (table 10). In late October and November, businessmen reported to the Department of Commerce and Securities and Exchange Commission that planned purchases of new plant and equipment in the second quarter of 1968 would be about 7 percent above the second quarter 1967 level. During the same period in 1967, spending rose 2.3 percent. Most of the increase this year is scheduled for the first quarter of 1968. It should be noted that much of the expected increase is likely to reflect higher prices and that current plans could be revised downward as was done throughout much of the past year.

Residential construction activity continued to rise during the fourth quarter of 1967. The value of residential housing put in place was up over \$2 billion from the third quarter to almost \$28 billion (table 8). The fourth quarter level was over 30 percent above the fourth quarter 1966 trough and about equal to the level prior to the slump in early 1966. However, with building material and construction labor costs rising, the quantity

Table 10.--Expenditures for new plant and equipment by major industry groups, quarterly 1967-68

(Billion dollars, seasonally adjusted annual rates)								
Industry group	:	1967				:	1968	:
	:					:		:
	:	:	:	:	:	:	:	Percentage
	:	:	:	:	:	:	:	change
	:	:	:	:	:	:	:	1967-II
	:	I	II	III	IV	I <u>1</u> /	II <u>1</u> /	to
:	:	:	:	:	:	:	1968-II	
:	:	:	:	:	:	:	:	
All industries	:	61.65	61.50	60.90	62.05	65.05	65.85	7
Manufacturing	:	27.85	27.00	26.15	26.55	27.75	28.40	5
Durable goods	:	14.20	13.75	13.50	13.75	14.60	15.00	9
Nondurable goods	:	13.70	13.25	12.65	12.80	13.15	13.40	1
Nonmanufacturing	:	33.80	34.50	34.70	35.50	37.35	37.45	9
	:							

1/ Anticipated in late October and November.

U.S. Department of Commerce.

of residential construction put in place continues below early 1966 levels.

Indicators of future homebuilding activity point to further increases in 1968, but perhaps not as large as in 1967. The rate of increase in starts of new residential housing units slowed in the fourth quarter, due primarily to a sharp drop in December starts. The December decline was attributed to severe winter weather, high interest rates, and fewer working days. However, building permits for future construction rose strongly in the fourth quarter, especially in December. Rising permits usually indicate a rise in housing starts in some future period.

Growth in final demand was held down by a sharp drop in net exports of goods and services during the fourth quarter according to preliminary data (table 8). Imports of goods and services rose significantly for the first time in 1967, while exports leveled off. This resulted in the lowest balance on goods and services since mid-1960. This deterioration probably was an important factor in the decision to launch a strong program to improve the U.S. balance of payments (see page 24).

Rising total output during the fourth quarter of 1967 led to continued gains in employment. Civilian employment was up $\frac{1}{2}$ million to about 75 million. The unemployment rate for civilian workers continued close to the third quarter level of 3.9 percent.

Consumer income continued to advance strongly during the fourth quarter, as the increase in employment was accompanied by a longer workweek and higher wage rates. Total personal income was up \$11 billion to \$642 billion (table 11). Almost all of the increase was in wage and salary payments, which were up nearly \$9 $\frac{1}{2}$ billion. The proportion of the increase in total personal income accounted for by wage and salary payments was somewhat lower during the first three quarters of 1967, especially in the first and second quarters. Some of the large fourth quarter increase in payrolls reflected the pay raise for Federal civilian and military personnel in October. Federal civilian employment declined from the third quarter, but employment by State and local Governments continued to rise. Private payrolls also rose strongly for the second quarter in a row, despite continued strikes in some industries.

Table 11.--Change from previous quarter in selected measures of consumer income and spending
1965-IV to 1967-IV, seasonally adjusted annual rates

Item	Unit	1965				1966				1967				
		IV	I	II	III	IV	I	II	III	IV	I	II	III	IV 1/
Total personal income	Bil. dol.	11.5	11.7	9.5	12.0	12.3	11.3	6.2	11.9	11.1				
Wages and salaries:	Bil. dol.	10.4	8.9	8.9	9.4	7.8	7.3	3.6	7.9	9.4				
Manufacturing	Bil. dol.	3.3	3.4	3.8	2.8	2.9	.5	-.5	2.0	2.3				
Nonmanufacturing	Bil. dol.	4.6	3.5	3.2	3.5	3.0	4.8	2.3	4.1	4.2				
Government	Bil. dol.	2.7	1.8	2.1	3.0	2.0	2.0	1.6	1.9	2.9				
Transfer payments	Bil. dol.	-1.5	1.9	-.5	2.1	3.5	3.3	.6	1.0	.5				
Personal tax payments	Bil. dol.	1.5	3.7	3.7	2.8	2.7	.6	-1.1	3.7	1.8				
Disposable personal income	Bil. dol.	10.0	8.1	5.8	9.1	9.6	10.7	7.3	8.2	9.3				
Consumer spending	Bil. dol.	11.4	10.4	3.4	8.5	3.7	6.4	9.5	5.6	6.1				
Durable	Bil. dol.	2.5	3.0	-3.4	2.7	-.3	-1.2	3.1	.2	1.0				
Nondurable	Bil. dol.	5.6	5.2	3.9	2.4	.8	3.9	3.0	1.3	1.7				
Services	Bil. dol.	3.4	2.3	2.8	3.5	3.1	3.7	3.4	4.1	3.4				
Personal savings	Bil. dol.	-1.6	-2.7	2.6	.5	5.4	4.2	-2.8	2.5	3.1				

1/ Preliminary.

U.S. Department of Commerce.

Other types of personal income continued to rise in the fourth quarter, but not as much as earlier in the year. Transfer payments, in particular, have risen more slowly. Dividend payments took a noticeable dip in the fourth quarter probably reflecting reduced corporate profits this year.

As a result of the Social Security Act of 1967, transfer payments are scheduled to increase 13 percent in March 1968 for the roughly 24 million people currently receiving benefits. However, part of these increases will be offset later in the year by a higher tax base (the amount of income on which tax is paid) for social security taxes which became effective in January. The tax base was raised from \$6,600 to \$7,800. In addition, social security tax rates will be raised to 9.6 percent from 8.8 percent on January 1, 1969 (half is paid by employees and half by employers).

Although total personal income in the fourth quarter rose at about the same rate as in the third quarter, disposable consumer income rose faster. It was up over \$9 billion to \$557 billion. The third quarter gain was about \$8 billion. The increase in personal income tax payments was smaller than in the third quarter.

Despite the continued strong gain in disposable consumer income in the fourth quarter, the increase in consumer spending fell somewhat short of the rise in income for the third time in 1967. Consumer spending rose about \$6 billion, compared with the disposable income gain of over \$9 billion (table 11). Apparently the relationship between consumption and income has temporarily shifted. The remaining \$3 billion went into personal savings which rose to $7\frac{1}{2}$ percent of income, up from 7 percent in the third quarter and the highest rate since the early fifties. In the fourth quarter of 1966 the savings rate was about $6\frac{1}{2}$ percent. Rising savings rates not only have a direct impact on consumer spending but also an indirect effect on total output, employment, and income.

As was the case in the third quarter of 1967, higher prices for consumer goods and services accounted for much of the increase in consumer spending. Prices of consumer goods and services rose at an annual rate of about 3 percent in the fourth quarter. This was slightly less than the 4 percent in the third quarter, but considerably more than the 2 percent rates in the first and second quarters.

Spending for durable goods picked up slightly in the fourth quarter, but virtually all the increase was due to sharply higher prices. Purchases of durable goods have fluctuated around \$70 billion since early 1966 following a fairly long period of substantial increases. Some of the increase in savings has been due to this leveling off. In the fourth quarter, automobile dealers' sales continued weak. This may have been due to inadequate supplies of some 1968 models as a result of recent strikes in the industry. Automobile sales continued to limp along during early January even with larger inventories.

Sales of nondurable goods rose slowly in the fourth quarter, the second quarter in a row. This development was also a factor in raising savings rates. Spending for clothing and shoes declined for the first time this year in the fourth quarter. This is unusual for this time of year. However, food sales picked up as did sales of other nondurable goods. Prices of nondurable goods rose more slowly than in the third quarter, but more rapidly than earlier in the year. Expenditures for services continued to trend upward although at a slightly slower rate. Prices rose slightly faster.

Demand for funds in capital markets continued strong during the fourth quarter of 1967. Interest rates and bond yields advanced further although there has been some easing recently. On November 19, the Federal Reserve Board raised the discount rate from 4 to $4\frac{1}{2}$ percent in response to Britain's devaluation of the pound sterling and an

increase in its bank rate from $6\frac{1}{2}$ to 8 percent. The Federal Reserve action gave short-term rates an added boost. Three-month Treasury bill yields rose from 4.451 percent to 5.012 percent in December. Yields on three to five year and long-term Government securities also rose, but leveled off or declined late in December and early in January. Corporate and municipal bond yields also declined in January after rising most of the fourth quarter.

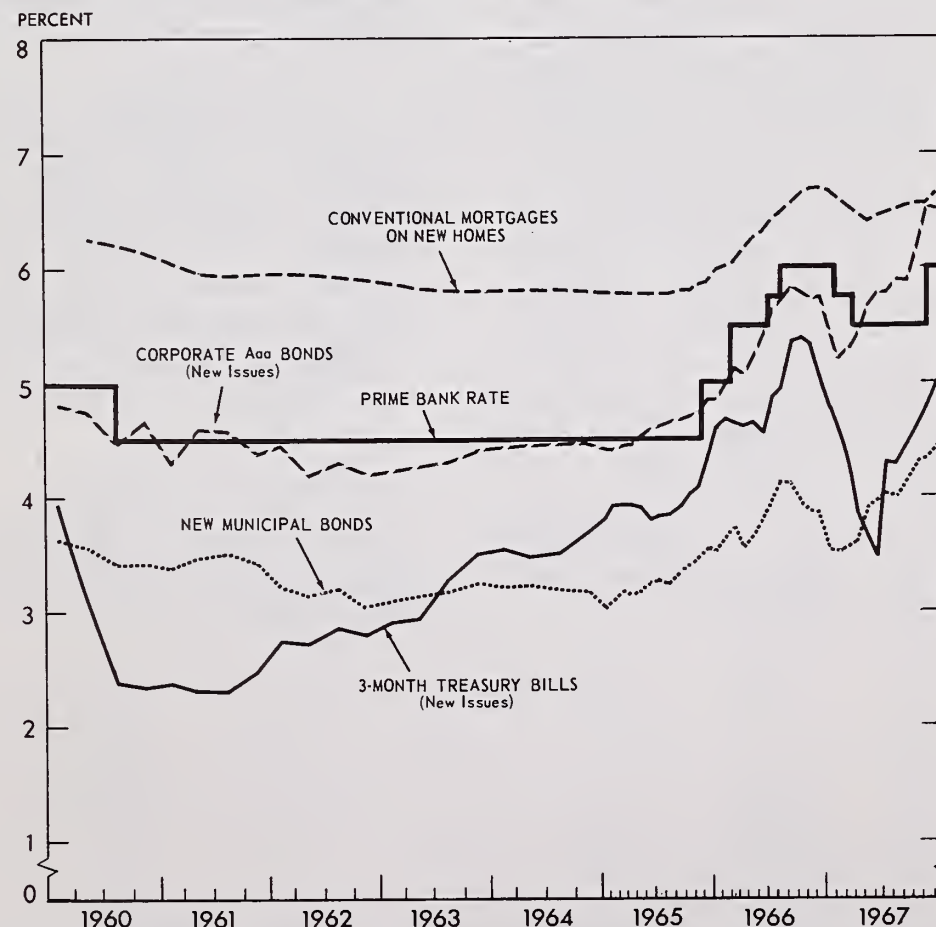
Federal Reserve open market operations continued to add to reserves of the banking system during the fourth quarter. However, member bank borrowing picked up, resulting in a decline in "free reserves"^{2/} to 109 million in the fourth quarter from 268 million in the third quarter. Free reserves were still considerably higher than a year earlier. On December 27, 1967, the Federal Reserve Board announced an increase of $\frac{1}{2}$ percentage point in reserve requirements

for most demand deposits. The increase took effect in January and was designed to aid in reducing inflationary pressures and improving the U.S. balance of payments. This increase was the first since September 1966 and the first against demand deposits since November 1960. Increased reserve requirements reduces the banking systems' ability to expand bank credit.

The money supply rose further during the fourth quarter, but the rate of increase slowed. Growth in the money supply since August has been considerably slower than during the January to August period.

^{2/} Free reserves represent the difference between excess reserves and borrowings at Federal Reserve banks.

Selected Interest Rates



NOTE.—DATA PLOTTED ARE QUARTERLY THROUGH 1964, MONTHLY THEREAFTER.
FEDERAL HOUSING ADMINISTRATION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MOODY'S INVESTORS SERVICE, AND TREASURY DEPARTMENT

BALANCE OF PAYMENTS

International transactions of the United States resulted in a balance of payments deficit of \$2.5 billion 1/ during the third quarter of 1967. This brought the average for the first nine months of 1967 to \$2.3 billion, up considerably from \$1.3 billion during the same period in 1966. The deficit for 1967 may total around \$3½ to \$4 billion, up sharply from the 1966 level of about \$1.4 billion.

The increase in the 1967 balance of payments deficit was due to a number of factors, including increased costs in Vietnam, higher private loans and investments abroad, a smaller increase than expected in the trade surplus, and larger travel expenditures abroad. Primarily as a result of these factors, and the uncertainty and unrest surrounding devaluation of the British pound sterling, the President recently announced a number of steps to reduce the balance of payments deficit and to maintain the stability of the dollar.

Private capital outflows will be curtailed through mandatory controls on direct investment abroad by U.S. corporations and a tightening of the voluntary program to restrain foreign lending by banks and other financial institutions. For the past three years there was a voluntary program to reduce foreign investment outlays by U.S. companies. Through the first three quarters of 1967, private capital outflows were higher, due primarily to increases in short-term loans and other claims reported by U.S. banks. During the first three quarters of 1966, there was virtually no change in bank reported capital outflow. The increase in 1967 probably reflects the more ample reserve position of U.S. banks in 1967.

Travel expenditures abroad by U.S. citizens have been rising for a number of years. Current indications point to some pickup in this type of spending in 1967. Some of the 1967 rise was associated with the Canadian Exposition in Montreal. The President has requested that all nonessential travel outside the Western Hemisphere be deferred for two years by Americans. Legislation will be proposed to implement this program. In addition, programs to increase foreign travel in the U.S. will be strengthened.

Government spending abroad, including purchases of goods and services, grants, and loans, will be reduced as much as possible. Allies of the United States will be asked to help offset the costs of maintaining troops in foreign countries by such steps as making some defense purchases in the United States and investment in long-term U.S. securities. The number of U.S. civilians working overseas will be reduced where possible. And U.S. forces and their dependents will be encouraged to reduce personal spending overseas.

In addition, sales of U.S. goods to foreigners will be promoted. Merchandise exports rose more than imports during 1967. However, the resulting increase in the merchandise trade balance was less than expected. According to preliminary data, the merchandise trade balance dipped sharply in the fourth quarter of 1967, primarily as a result of increased imports.

1/ All data in this section are seasonally adjusted annual rates unless otherwise specified.

Table 12.--Major international transactions of the United States, 1965-67 1/

(Billions of dollars, seasonally adjusted annual rates)

Item	1965		1966		1967	
	Year	Year	Year	Year	Year	Year
	1965	1966	1965	1966	1967	1967
			III	IV	I	II
						III 2/
Balance on goods and services	6.9	5.1	4.6	4.3	5.4	5.3
Exports	39.1	43.0	43.7	44.0	45.4	45.4
Imports	-32.2	-37.9	-39.0	-39.7	-40.0	-40.2
Private remittances to foreigners	- .7	- .6	- .6	- .6	- .7	- .8
U.S. Government grants and other transfers:	-2.2	-2.3	-2.2	-1.9	-2.2	-2.2
U.S. private capital, net	-3.7	-4.2	-3.7	-4.7	-3.8	-4.5
U.S. Government capital, net	-1.6	-1.5	-1.3	-1.4	-2.9	-2.2
Foreign capital, net 3/	.3	2.5	1.5	3.1	3.3	4.9
Unrecorded transactions	- .4	- .3	1.1	- .6	-1.1	-2.2
Total=Liquidity balance	-1.3	-1.4	- .6	-1.7	-2.1	-2.2
U.S. official reserve assets (increase +)	-1.2	- .6	- .3	0	-4.1	1.7
Liquid liabilities to all foreigners (increase -)	- .1	- .8	- .3	-1.7	2.0	-3.9
						-4.0

1/ Excluding military grant aid. 2/ Preliminary. 3/ Excluding those liquid items used in calculating the liquidity balance.

Totals may not add due to rounding. Based on data from U.S. Department of Commerce.

THE 1969 AGRICULTURAL BUDGET IN BRIEF

The Budget of the U.S. Government, as presented by President Johnson on January 29, 1968 proposed spending of \$186.1 billion in fiscal 1969. ^{1/} This would be an increase of \$10.5 billion. It is estimated that outlays in 1968 are increasing \$17.2 billion from a year earlier.

The 1969 Budget was presented as a unified budget. When compared with the previously used administrative budget, which excluded trust funds whose outlays now exceed \$45 billion, the budget totals under the new concept are more comprehensive and significantly higher.

Table 13.--Budget outlays by function ^{1/}

(In billions of dollars)			
Function	: 1967 : : Actual:	: 1968 : : Est.:	: 1969 : : Est.:
National defense	70.1	76.5	79.8
International	:	:	:
affairs	4.7	5.0	5.2
Space research	5.4	4.8	4.6
Agricultural	:	:	:
resources	4.4	5.3	5.6
Natural resources	2.1	2.4	2.5
Commerce and	:	:	:
transportation	7.4	7.9	8.1
Housing and com-	:	:	:
mercial development	2.3	4.0	2.8
Health and welfare	40.1	46.4	51.4
Education	4.0	4.5	4.7
Veterans benefits	6.9	7.2	7.3
Interest	12.5	13.5	14.4
General Government	2.5	2.6	2.8
Other	-4.0	-4.5	-3.1
Total outlays	158.4	175.6	186.1

^{1/} All years are on a fiscal year basis. Outlays include expenditures and net lending.

Spending for national defense in 1969 is expected to total almost \$80 billion or roughly 43 percent of total outlays. About one-third of 1969 defense spending will be for operations in Viet-

nam. Although total defense outlays are expected to rise in 1969, the proposed increase will be only about half as large as in 1968. Nondefense spending in 1969 is estimated at \$106.3 billion, compared with \$99.1 billion in 1968. The increase in nondefense outlays will be primarily for social security and Medicare, pay increases, and relatively noncontrollable programs such as interest, veterans pensions, and public assistance.

The 1969 Budget proposed a 5½ percent increase in spending for agriculture and agricultural resources. This compares with a 21 percent increase estimated for 1968. Expenditures for price support and related programs are expected to increase much more slowly in 1969. Other increases in spending for agriculture and agricultural resources in 1969 include programs related to rural poverty, and increased loans to improve electric power and telephone services to rural people. Virtually all outlays under the agriculture and agricultural resources function are made by the U.S. Department of Agriculture. In

Table 14.--U.S.D.A. budget outlays ^{1/}

(Billions of dollars)			
Item	: 1967 : : Actual:	: 1968 : : Est.:	: 1969 : : Est.:
Agricultural re-	:	:	:
sources ^{2/}	3.7	4.6	4.9
Food for Freedom	1.5	1.3	1.4
Natural resources	.3	.4	.3
Health and welfare	.4	.5	.6
Other	-.1	-.1	0
Total	5.8	6.7	7.2

^{1/} All years on fiscal year basis. Outlays include expenditures and net lending.

^{2/} Excludes farm Credit Administration which is an independent agency and is not included in the U.S.D.A. budget.

^{1/} All years are on a fiscal year basis. Outlays include expenditures and net lending.

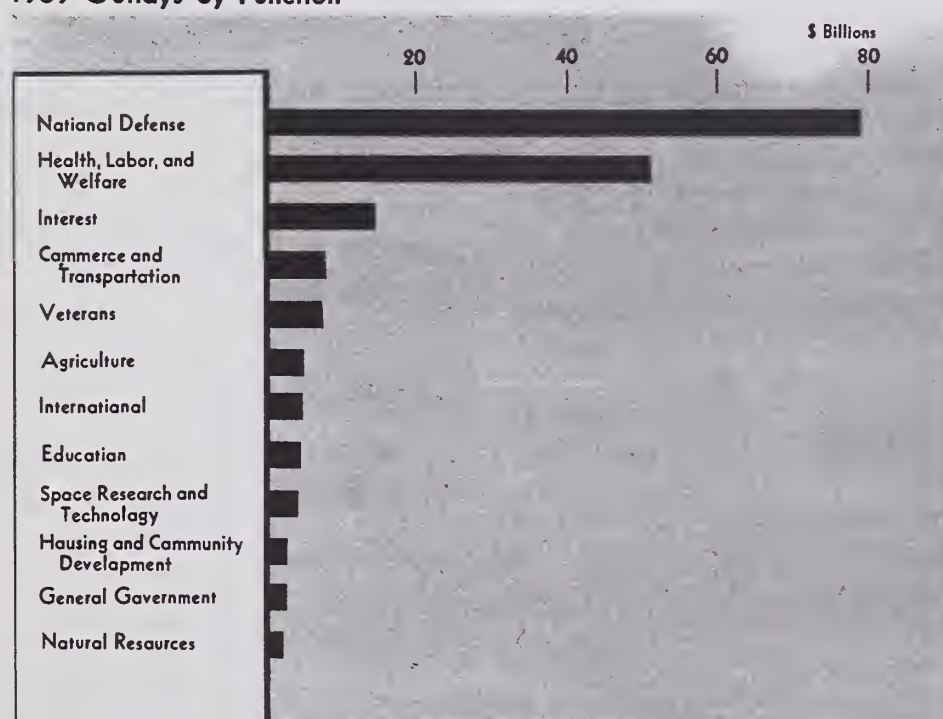
addition, the U.S.D.A. also plays an important role in other areas. Thus, the total U.S.D.A. Budget exceeds the above amount agricultural resources by about \$1½ billion.

The U.S.D.A. Budget proposed for 1969 amounts to \$7.2 billion, compared with \$6.7 billion in 1968 and \$5.8 billion in 1967. Most of the difference between total U.S.D.A. spending and outlays under the agriculture and agricultural resources function is accounted for by expenditures for Food for Freedom, Natural resources, and health and welfare programs such as the school lunch, food stamp, and special milk programs. Food for Freedom expenditures are expected to rise slightly to a-

bout \$1.4 billion in 1969. About two-thirds of these expenditures will be under sales agreements; the rest will be for a donation program. Legislation will be proposed to extend the Food for Freedom Program beyond its expiration date of December 31, 1968.

The food stamp program is being expanded to increase the number of participants to 3 million low-income persons by June 30, 1969. The school lunch program is also being enlarged in order to reach more needy children. Presently, about 10 percent of the lunches served under the regular school lunch program are served free or at a reduced price.

1969 Outlays by Function



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